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The Keys to Success in 2014

Jamie Golombek on Hitting the Right Tax Notes with clients

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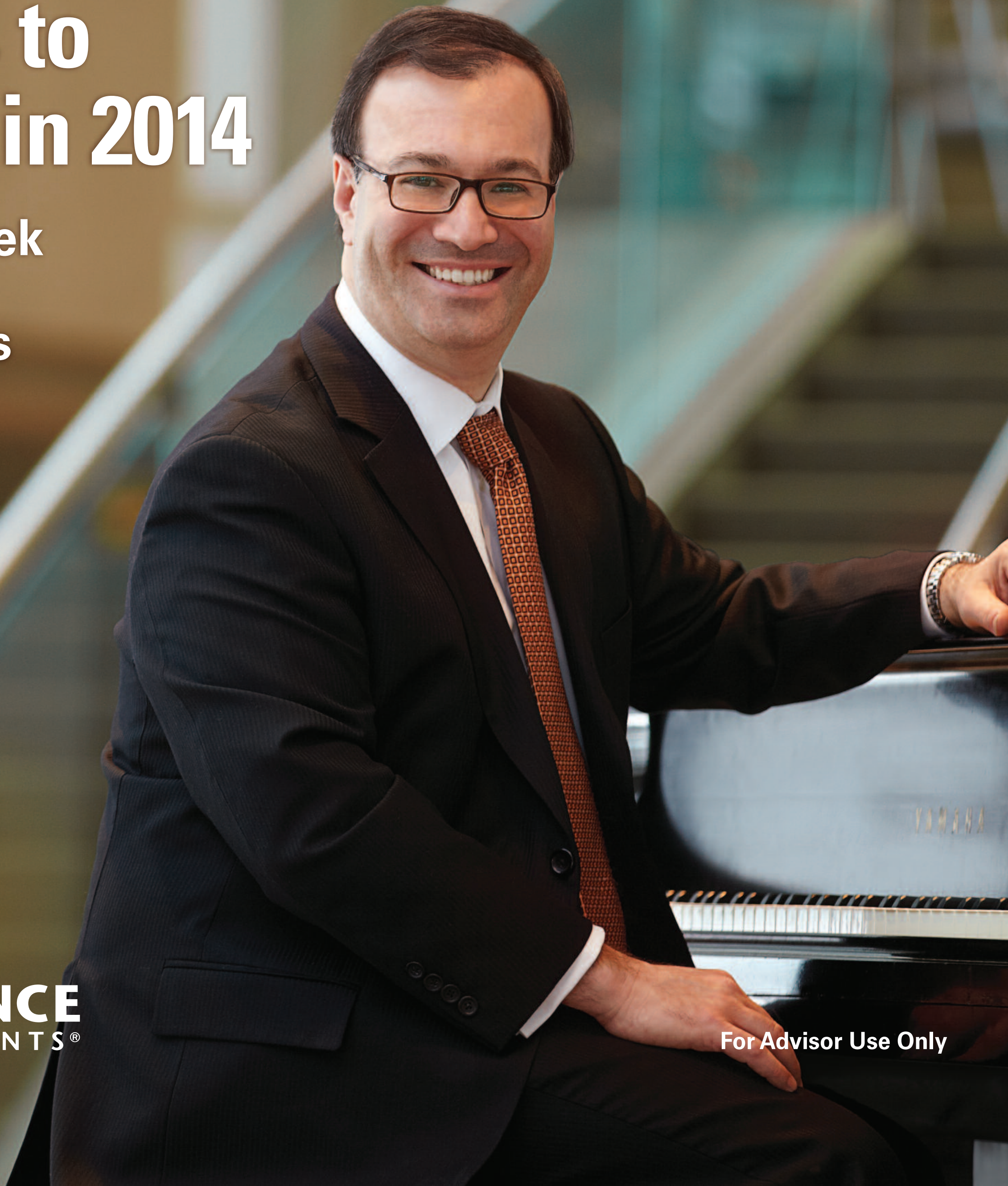

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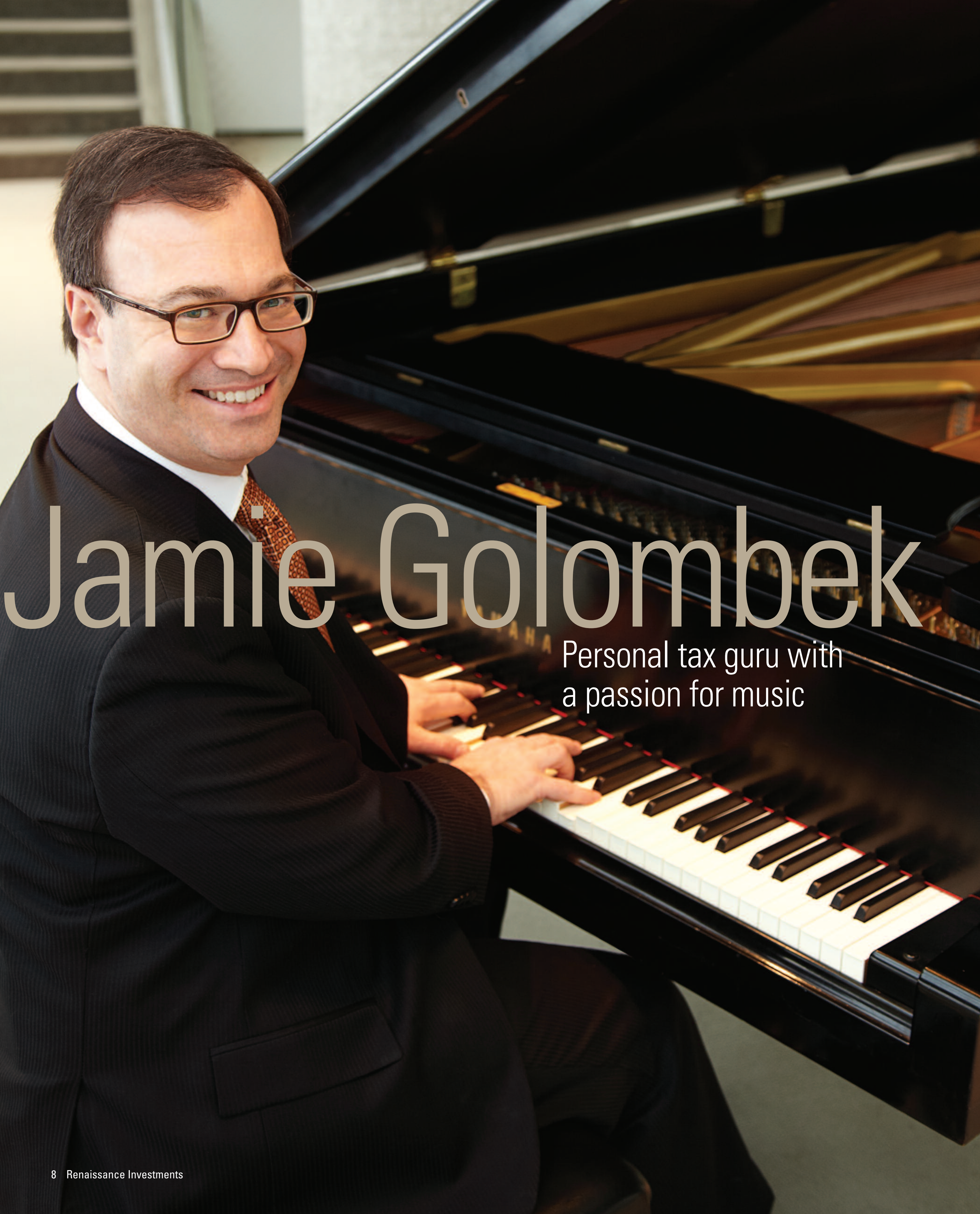
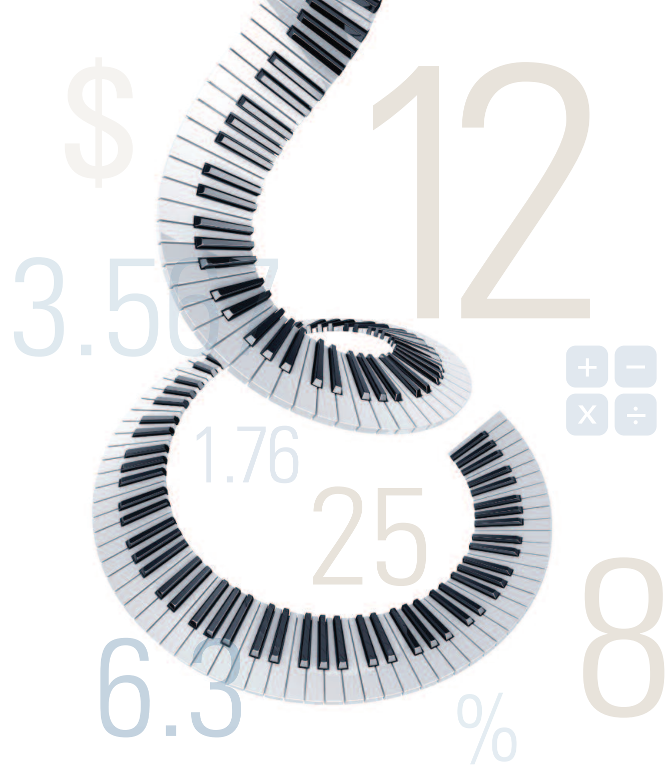


Jamie Golombek

Personal tax guru with a passion for music

Hitting the Right Tax Notes with Clients



Jamie Golombek, Canada's personal tax guru, says advisors don't need to be tax experts, but they can use holistic tax thinking to elevate their client relationships. Discover Jamie's Top Three Tax Strategies for 2014, the best sources to stay up-to-date on tax developments, and on a personal note, learn about Jamie's lifelong passion for music.

From an early age, Jamie Golombek has been a wiz with numbers. After graduating high school with near perfect marks in all three math subjects, a defining moment occurred while working at a high-end Toronto grocery store before heading off to McGill University to obtain a Commerce degree, and afterwards, his CA designation.

In his cashier role, Jamie was keenly aware of the products' prices and any irregularities. When the grocery chain's COO toured the store one day, Jamie seized an opportunity and recommended that he hike the price of chocolate milk to align with the store's premium pricing.

This brazen move paid off. Three days later, Jamie received a promotion to assistant store manager. Jamie reflects on this scene and says, "It was at an early age that I recognized opportunities and how important it is to speak up. You have to be your own biggest advocate in terms of your strengths."

Fast forward to 2014 and Jamie's strength continues to be numbers – in particular, tax and integrated financial planning. After carving out a unique niche as a personal tax guru, Jamie came on board at CIBC about six years ago. Today he continues to spread indispensible tax advice to CIBC clients, financial advisors and the media.

Advisors Can Set Themselves Apart with Sound Tax Knowledge

"I always emphasize that advisors don't need to be tax experts," says Jamie, acknowledging they should rely on accountants and lawyers for tax advice. However, he advocates that advisors develop a good general knowledge of basic tax considerations, as they affect investments. "Depending on the province that you live in, tax can take away half your returns. The ability to maximize the tax-savings opportunities and minimize the actual tax brings tremendous real value to the client relationship," he adds.

Today, Canadians have more financial products to choose from than ever, and Jamie suggests that having tax knowledge offers a real opportunity to differentiate your practice. "Beyond having a good understanding of all available registered plans, advisors should understand strategies that can be used throughout the entire year to reduce their taxes, whether it's income splitting, appropriate use of debt in a tax-effective manner or small business tax strategies. There are lots of ways to add value and boost your client relationships."

How Advisors Can Stay Up-to-Date on Tax

Keeping abreast of tax changes is a full-time job, but there are some shortcuts that Jamie recommends for advisors. Jamie spends hours per week sifting through tax cases and changes, and shares pertinent insight via Twitter to almost 2,500 followers (@JamieGolombek). As well, he produces regular reports for advisors on many topics such as the federal budget, year-end tax planning and small business issues – all found on Renaissanceinvestments.ca and at JamieGolombek.com. Jamie also suggests that advisors register for daily e-newsletters from sites like advisor.ca and investmentexecutive.com that often include pertinent tax insight.

Importance of Tax in Portfolio Construction

As Jamie tells his MBA students at the Schulich School of Business at York University, where he has been teaching an MBA course on personal financial planning for the past 13 years, the first step is to understand your clients' financial goals and consequent timelines. Once that's achieved, you can build an investment portfolio and look at various tax considerations. For example, if bonds are held in the portfolio, it may be advantageous to hold them inside of a tax-sheltered environment. Or if equities are part of the plan, holding them outside of registered plans may provide benefit from favourable capital gains tax treatment. As well, Canadian equities can likely benefit from the Canadian dividend tax credit available outside of registered plans.

Biggest Tax Planning Misconception

Jamie believes that tax planning is not just for the wealthy. It's for everyone – no matter what their income level. To prove his point he uses the example of a 20-year-old who has just started his first job and wants to invest in an RRSP. "We generally suggest that a low-income earner prioritize contributing to TFSAs. For someone making under $40,000 a year in Ontario, the tax rate is about 20%, so why put money into an RRSP to likely later take it out at a higher rate? When this individual takes out the money in the future, he will probably be in a 30 or 40% tax bracket. Why not put that money in a TFSA, pay the 20% tax up front, and pay no tax when withdrawals are made later in life?"

Talk Tax Year Round

"I've always said that tax planning should be a year-round effort," advises Jamie. At the beginning of the year, tax advisors should sit down with their clients and look at the entire tax planning year ahead to maximize future tax efficiency. "Unfortunately there is very little you can do in March or April to save tax on the previous year's tax return. When you file the return, some small things can be done, like combining spouses' donations together or pension income splitting, but it's too late at that point to do much about the previous year's taxes."

Jamie's Top Tax Update Sources

- Public releases by the Canada Revenue Agency (CRA), bulletins, conference statements
- CRA technical interpretation letters to taxpayers (database of 20,000+ letters)
- Department of Finance updates for new and proposed legislation
- Summaries of relevant personal tax cases

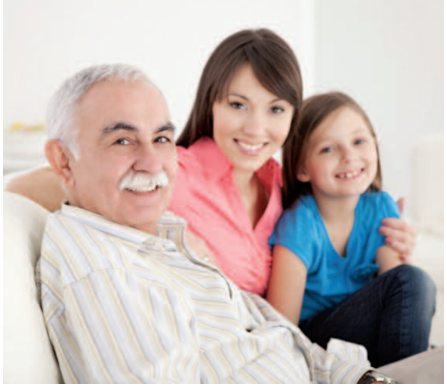
Jamie's Top 3 Tax Strategies for 2014

Maximize all Registered Plans

"It's predicted that within the next generation, 90% of Canadians will have all of their money in tax sheltered plans, whether it's the RRSP for retirement, the RESP for children's post secondary education, the TFSA for anything at all, and the RDSP for someone with a severe and permanent disability. An enormous amount of room is being built up across all these plans. The cumulative TFSA limit already is at $31,000 for 2014 for a Canadian resident who's been at least 18 years of age since 2009 and has never contributed to a TFSA. There's really no excuse for non-registered money sitting around when clients have not maximized their registered plans. Similarly with RESPs – we find that many clients are just putting in the bare minimum each year to get the 20% matching Canada Education Savings Grant. Why not contribute excess funds? You can put in up to $50,000 per child. It's a great tax shelter and the contributions can be withdrawn tax free. In addition, most of the income and grants may effectively come out tax free through the use of the child's various tax credits."

Invest Tax Efficiently

"Look at where investments are located. Try to minimize the amount of tax on investment income using strategies like dividend investing – Canadian dividend funds have a lower effective tax rate than interest-bearing investments and capital gains are effectively taxed at half the normal rate. And it may be preferable to hold fixed-income investments inside registered plans, like RRSPs and TFSAs."



Look at the Total Family Picture

"The clients' entire family situation should be analyzed to minimize tax. For example, it may be beneficial to use income-splitting techniques that could allow investment income to be taxed in the hands of family members (such as a spouse, common-law partner or children) who are in a lower tax bracket. On January 1, 2014, the CRA's prescribed rate for income-splitting loans just dropped back down to 1%, which is the lowest rate possible. The nice thing about locking in a loan like this is that the rate never needs to be adjusted – no matter what happens to future prescribed rates. It's a big opportunity. You can also use this strategy to help fund a child's education. For example, money loaned to a trust for a child could be invested in a Canadian dividend fund to get tax-free income into the child's hands, assuming the child has no or minimal other income."

NEW

Jamie's Tax Insight available at:
renaissanceinvestments.ca

1. How Tax Planning can Elevate Your Business
2. Top 3 Tax Strategies for 2014

PLUS Full coverage of what the **2014 Federal Budget** means to you and your clients

Jamie Golombek is Managing Director, Tax and Estate Planning with CIBC Wealth Advisory Services. He works closely with advisors to help them provide integrated financial planning solutions for their high-net-worth clients. Jamie is frequently quoted in the media as an expert on taxation. www.renaissanceinvestments.ca/en/jamie_golombek/

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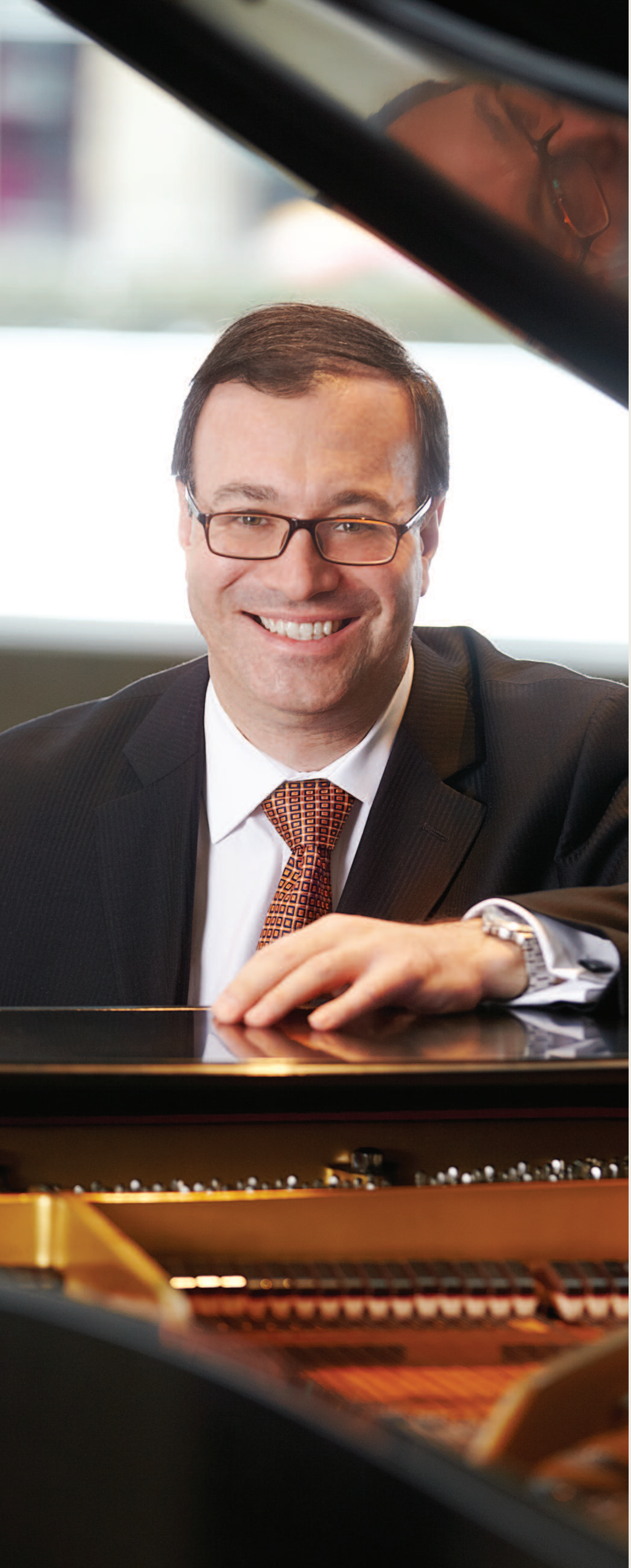
Podcast > Don't just talk tax during RRSP season



music

A PERSONAL PASSION

Instilled at a young age, Jamie's passion has always been music. His grandfather would visit him in Toronto when he was a child, and bring a variety of string instruments from his Florida home. Jamie began piano lessons at a very early age to reach grade eight in the Royal Conservatory program. He says, "I play by ear and sight read. I now have the Steinway baby grand piano that my grand-parents had in their home." Jamie used to play classical music but now prefers to play popular music, Broadway tunes and jazz.

At age 12, Jamie went to his first rock concert – Hall & Oates. This outing sparked a lifelong habit to see live entertainment. About once a week Jamie goes to a live music, play or sporting event. "If I'm out of town speaking, I'll sometimes go see a show after a client event.

"Recently, I have seen P!NK, the Eagles, Drake and the Keith Jarrett Trio at their 30th anniversary show at Carnegie Hall in New York City. My favourite group is the Dave Mathews Band and I spent part of last summer following him around. I also enjoy classic rock. I went to see Yes at Massey Hall last year and also saw Rush on their recent Toronto stop. My musical taste is all over the map," he says.

Jamie has collected and catalogued every ticket stub, now amounting to thousands, for every show he's seen over the past 30 years. He has about 800 CDs, but in the past decade has now turned to downloading songs on iTunes and owns about 12,000 individual tracks, enough for about two months of non-stop listening.

"My main motto on the personal side is to spend money on experiences rather than on physical things," says Jamie. And he passes on this belief to his family by taking them to diverse music, theatre, sports and other events. "I think of happiness in terms of putting together a series of fun experiences that are memorable and meaningful. That's more important to me than anything," he concludes.

Jamie's Favourites

Jazz pianist: Keith Jarrett
Group: Dave Matthews Band
Sports Team: Toronto Maple Leafs
Broadway Musical: Next to Normal
Movie: Annie Hall
Book: The Catcher in the Rye
Vacation Destination: New York City

Give

& you shall receive

A Guide to Charitable Giving and Tax Credits

While charitable giving supports our society, it also makes a lot of sense from a financial planning perspective. And it could be just the opportunity you need to further establish yourself as your clients' top all-around financial resource, including tax planning.

This article summarizes Jamie Golombek's charitable giving tax insights presented in previous reports.

If your clients are not giving to charity and, consequently, missing out on tax credits, they're not alone. Charitable giving seems to be on the wane in Canada. According to the Fraser Institute's annual Generosity Index released in December 2013, a lower percentage of tax filers donated to charity in Canada (22.9%) than in the United States (26.0%).

Since giving to charities is not top of mind with many Canadians, it's a good time to talk to your clients about how charitable giving can advance their tax planning strategy.

The Basics

Here are the basic donation credit rules that apply to everyone:

- Donations to a registered charity in Canada are eligible for the donation tax credit. For the first $200 of donations made by an individual in the year, the federal donation credit is 15%.
- Each province also provides a provincial donation tax credit. For example, the Ontario provincial credit is an additional 5.05%, for a combined total credit of approximately 20%. In other words, Ontarians would be entitled to about $40 back from the first $200 of annual donations.
- Once at least $200 of donations have been made in any year, the donation credit jumps to 29% federally, plus between 11% and 21% provincially, depending on the donor's income tax bracket and high-income surtaxes in their province.
- In general, donors can get a credit for all donations to registered charities, up to 75% of their net income. In the year of death (and going back one year), the limit is 100% of net income.

First-time Donor's Super Credit (FDSC)

If your clients are among the almost 75% of Canadians that hasn't given anything to charity, or hasn't in some time, they can take advantage of the new First-Time Donor's Super Credit (FDSC). A first-time donor is someone who hasn't claimed a donation credit after 2007. If they're married or living common law, neither they nor their spouse qualify if either of them has made a donation after 2007.

To encourage "new" donors, the 2013 federal budget introduced the temporary FDSC, which provides an additional 25% non-refundable tax credit for a first-time donor on up to $1,000 of donations. While first-time donor couples can share the FDSC in a particular year, the total amount claimed can't exceed the maximum allowable credit.

As a result, a first-time donor will be entitled to a 40% federal credit for donations of $200 or less and a 54% credit for donations over $200 up to $1,000. Only cash donations will qualify for the FDSC as opposed to donations of property or donations "in-kind."

The FDSC is available for donations made on or after March 21, 2013 and the credit can only be claimed once in either 2013, or any year until 2017.

"In-Kind" Donations

Another option is donating appreciated publicly traded shares or mutual funds "in-kind" to charity. Not only will donors get a donation receipt for the fair market value of the securities being donated, they won't have to pay any capital gains tax on the accrued capital gains.

They can also donate any losers to charity and claim the capital loss to be used against either capital gains realized in 2013, or carried back and used against any gains they may have realized in 2010, 2011 or 2012. The capital loss may also be carried forward indefinitely to future years.

Your clients need not feel bad about unloading those underperformers to charity, as most charitable organizations will simply dispose of the donated securities and realize the cash, which they will then use in their charitable activities.

Donor-Advised Funds

If your clients are high-net-worth, donor-advised funds, or DAFs, can be a good alternative to establishing private foundations.

DAFs essentially piggyback on certain public foundations, such as community foundations or foundations established by some of the major financial institutions or investment management firms, by permitting donors to, in effect, create a "mini-foundation" as a subset of the larger, public foundation.

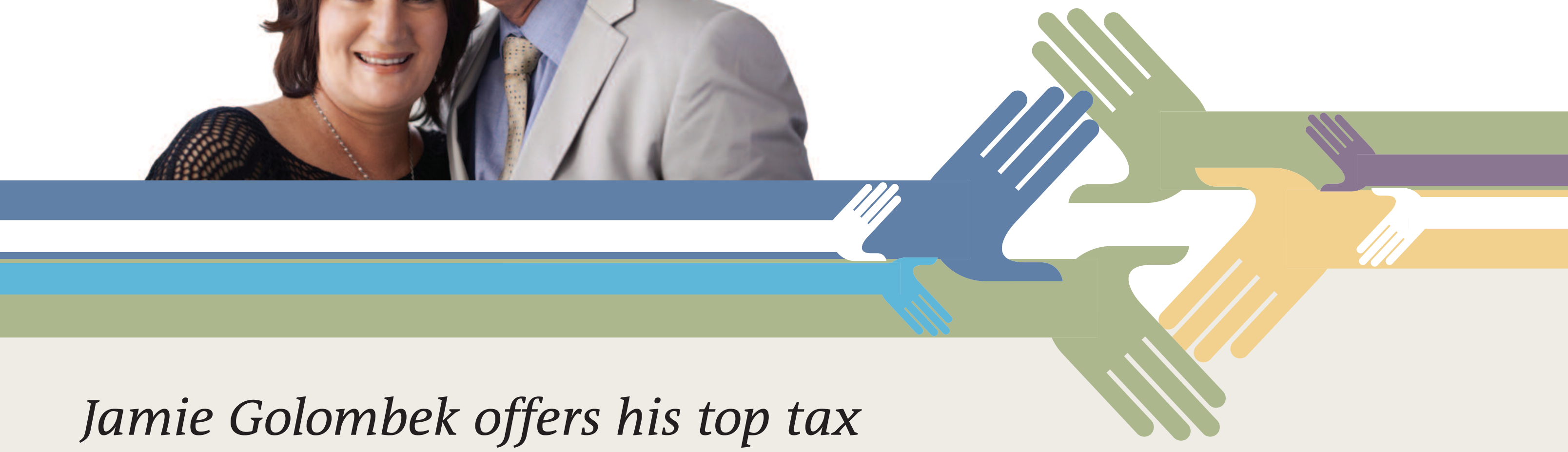
They start by making a donation to their DAF – the minimum required donation is typically at least $10,000 or more. Whether they donate cash or property, they get an immediate tax receipt equal to the fair market value of their gift.

While the donor gets an immediate tax benefit, the funds can grow inside the DAF tax-free, and each year the donor can "recommend" distributions to be made from their DAF to registered charities of their choice.

The funds inside the DAF are invested by professional money managers or the donor's investment advisor, who are able to provide a superior investment return at a lower fee than if their assets had been donated to a private foundation and were then invested. These enhanced returns can provide increased donations from the DAF in future years.

Perhaps the biggest advantage, however, is that donors don't have to worry about any administrative details or record keeping. The foundation will process donation requests and transfer the funds to the charities of the donor's choice, as well as track the DAF and provide regular updates on the funds' performance (for a fee).

Overall, charitable giving has more than solely philanthropic benefits. The various tax credits around donating are your opportunity to start a tax strategy conversation with your clients, no matter what their financial situation.



Jamie Golombek offers his top tax tips to help clients with charitable giving:

Give Generously for Maximum Tax Benefits

Once donations exceed $200 in any year, the federal donation credit jumps from 15% to 29% and the provincial donation tax credit rates also increase.

Combine Spousal Donations

Spouses or common-law partners can combine their donations to make it easier to exceed the $200 threshold, thereby increasing the tax credit that is available.

Claim Unused Donations in a Future Year

A donor may forego claiming a tax credit for a donation made in the current year and combine the amount with donations for any of the five following tax years to exceed the $200 threshold.

Take Advantage of First-time Donor's Super Credit (FDSC)

First-time donors may be eligible for an additional 25% federal FDSC on up to $1,000 of total cash donations.

Donate Publicly-Traded Securities to Eliminate Capital Gains Tax

There is no tax on capital gains from publicly-listed securities, mutual funds and segregated funds that are donated to charity. Donors with significant accrued gains and a looming tax bill should consider donating securities "in-kind" to reap the maximum tax benefits.